

Exhibit No.:
Issue: Transaction Approval
Witness: Ian E. Robertson
Type of Exhibit: Direct Testimony
Sponsoring Party: Liberty Energy (Midstates)
Corp.
Case No.: GM-2012-____
Date Testimony Prepared: August 1, 2011

MISSOURI PUBLIC SERVICE COMMISSION

CASE NO.: GM-2012-____

DIRECT TESTIMONY

OF

IAN E. ROBERTSON

ON BEHALF OF

LIBERTY ENERGY (MIDSTATES) CORP.

*Oakville, Ontario, Canada
August 2011*

1 **Q. Please state your name and business address?**

2 A. My name is Ian E. Robertson. My business address is 2845 Bristol Circle, Oakville,
3 Ontario, Canada L6H 7H7.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am Chief Executive Officer of Algonquin Power & Utilities Corp. (“Algonquin”).

6 **Q. Please describe your professional and educational background?**

7 A. In 1982, I earned a Bachelor of Applied Science degree in Electrical Engineering from
8 University of Waterloo, and in 1991, I earned a Master of Business Administration from
9 York University. In 2001, I was awarded a Chartered Financial Analyst designation from
10 the CFA Institute, and in 2008, I was awarded a Chartered Director designation from
11 McMaster University, having completed an accredited course of study in McMaster’s
12 corporate development program.

13 I have over 25 years of professional experience in the utility industry, including electric
14 generation project development, financing, acquisition and operation, and regulated
15 utility acquisition, financing, and operation. I was named to my current position as Chief
16 Executive Officer of Algonquin in December 2009 following the conversion of
17 Algonquin from an income trust to a common share corporation. I am one of the
18 individuals who founded Algonquin’s predecessor organization in 1988 and have
19 continuously served as a member of the senior management of Algonquin since that time,
20 providing leadership to address technical and financial matters related to Algonquin’s
21 power and utilities businesses.

1 In addition to my roles with Algonquin and its affiliates, my professional experience
2 includes serving as a Director for several publicly traded companies. From 2003 until
3 2007, I served as a Director of Juno Capital Corp., a publicly traded company involved in
4 financing energy infrastructure projects in Canada. From 2007 until 2010, I served as a
5 Director of North Peace Energy Corp., an organization in the business of exploration,
6 development and production of petroleum and natural gas resources in the province of
7 Alberta, Canada. From 2002 until 2005, I served as a Director of Highground Capital
8 Corp., a public company focused on financing the development of infrastructure and
9 renewable power projects in Canada.

10 **Q. Have you testified before the Missouri Public Service Commission (“Commission”)**
11 **or other state public utility regulatory commissions?**

12 A. I have not previously testified before the Commission. However, as a part of my
13 responsibilities with Algonquin’s regulated utility subsidiaries, I have testified before the
14 Arizona Corporation Commission and the California Public Utilities Commission and
15 have provided written testimony to the New Hampshire Public Utilities Commission.

16 **Q. What are the purposes of your testimony?**

17 A. The purpose of my testimony is to introduce Algonquin, describe our overall business
18 strategy to invest in, own and operate for the long term a national portfolio of moderately
19 sized utility businesses, discuss how our acquisition of Atmos’ Missouri utility assets is
20 consistent with that strategy, discuss Algonquin’s financial and managerial capabilities
21 and, most importantly, explain why we believe it is not detrimental to the public interest

1 and, in fact, will be consistent with and will promote the public interest, to approve this
2 acquisition.

3 **Q. Are you sponsoring any additional Schedules?**

4 A. Yes. I am sponsoring **Schedule 1.1** which describes our business model. I am also
5 sponsoring **Schedule 1.2** which contains copies of three positive analyst reports
6 following the announcement of the proposed transaction.

7 **Q. Please provide an overview of Algonquin and its corporate structure?**

8 A. Algonquin is incorporated under the laws of Canada, with a principal place of business in
9 Oakville, Ontario. It is a public reporting issuer under the laws of Canada and the United
10 States and its shares and debentures are traded on the Toronto Stock Exchange. Organized
11 in 1987, Algonquin has been a successful developer and operator of independent electric
12 generating facilities and is one of the largest renewable power companies in Canada.
13 Over fifty percent of Algonquin's revenues are generated through its U.S. based
14 operations.

15 Algonquin acquired its first regulated utility operations in 2001 and since then has
16 acquired an additional nineteen different water, waste water and electric utilities serving a
17 total of approximately 125,000 customers in the United States—approximately 47,000
18 electric utility customers and approximately 75,000 water customers. Algonquin has not
19 sold any of the regulated utilities it has purchased. In addition, Algonquin has committed
20 to buy utilities serving over 47,000 electric customers and over 83,000 natural gas
21 customers in New Hampshire.

1 **Q. Please provide an overview of the organizational structure of Algonquin's utility**
2 **businesses?**

3 Algonquin conducts its regulated utility operations through subsidiaries. Liberty Energy
4 Midstates is an indirect subsidiary of Algonquin and will become a public utility within
5 the meaning of the Public Service Commission Law upon the closing of the Purchase
6 Agreement. Algonquin's regulated utilities businesses are organized under its wholly
7 owned subsidiary Liberty Utilities (Canada) Corp., a Canadian corporation, which owns
8 Liberty Utilities Co., a Delaware corporation, which in turn owns Liberty Energy Utilities
9 Company ("Liberty Energy"), which through subsidiaries currently provides electrical
10 utility services to approximately 47,000 customers. Liberty Energy is the immediate
11 parent of Liberty Energy Midstates. Liberty Utilities also owns Liberty Water Co., a
12 Delaware corporation that provides, through subsidiaries, regulated water utility services
13 to more than 75,000 customers with a portfolio of nineteen water treatment facilities.
14 Algonquin itself is incorporated under the laws of Canada, with a principal place of
15 business in Oakville, Ontario. Algonquin has been doing business in Missouri as Algonquin
16 Water Resources of Missouri LLC d/b/a Liberty Water, providing water service to
17 approximately 771 connections in Jefferson, Stone and Taney Counties, Missouri, and
18 providing sewer service to approximately 267 connections in those same Missouri counties.
19 Liberty Water currently has two (2) acquisition cases pending before the Commission,
20 Case No. WO-2011-0328 (Noel Water Co.) and Case No. WO-2011-0350 (KMB Utility
21 Corporation). An organizational chart displaying the names and corporate relationships
22 of all companies that are affiliated interests of Liberty Energy Midstates as of the date

1 hereof and the name of any parent or subsidiary corporation of Liberty Energy Midstates
2 may be found in **Appendix B** to the Joint Application.

3 **Overview of Approach to Regulated Utility Business**

4 **Q. Please describe Algonquin’s overall business mission for Liberty Energy?**

5 A. As I mentioned previously, Liberty Energy will indirectly own and operate its Missouri-
6 based utility service through its subsidiary Liberty Energy Midstates. The overall business
7 mission for Liberty Energy is to invest in, own and operate a national portfolio of
8 moderately sized electrical and natural gas distribution utility businesses that provide the
9 opportunity for predictable returns, demonstrate a history of reasonable growth, and are
10 located in regulatory jurisdictions that we expect to be supportive of our “best-in-class”
11 customer-focused approach and local management strategies. Algonquin believes that the
12 acquisition of Atmos’ Missouri-based assets is consistent with this long view strategy.

13 **Q. Please provide an overview of how regulated utilities fit into Algonquin’s business
14 strategy and goals?**

15 A. Commencing with our initial public offering in 1997, Algonquin committed to providing
16 investors a safe and growing stream of dividends with the potential for capital
17 appreciation. We are focused on investing in lower risk, income producing assets with the
18 expectation that we will hold them for the long term – a core tenet of our approach. As
19 can be seen from **Schedule 1.1**, our underlying business model is based on delivering
20 long term sustainable returns to our investors.

1 As applied to our utility business line, the first step in achieving this is to make the
2 investment to acquire a particular utility (identified as “Create” the investment on
3 **Schedule 1.1**). The next step is to integrate our approach to utility management into that
4 operation, including managing the new organization to deliver on our goal of best-in-
5 class customer service and build strong regulator relationships (identified as “Integrate”
6 on **Schedule 1.1**). The last and arguably most important part of the model, to allow us to
7 deliver on the long term nature of our business model, is to continue to reinvest in the
8 opportunity (identified as “Expand” the investment). For a utility business, this could
9 include growing the existing utility through capital renewal or expanding the Liberties
10 Utilities footprint through acquisition of additional neighboring utilities or expanding
11 facilities to extend a service area. Algonquin believes that this business model, with an
12 emphasis on re-investment, will allow Algonquin to deliver on the promise of superior
13 service to its customers and sustainable returns to its investors.

14 Algonquin began adding regulated utilities to its business portfolio in 2001. Since then
15 we have not sold, nor had the intention of selling, any of the utilities we have acquired.
16 We believe that the business proposition associated with the ownership and operation of
17 regulated utilities (i.e., extremely long business life, reasonably predictable risks, and
18 reasonable returns) are completely consistent with our underlying business model and
19 will allow us to meet our commitments to the investment community. On that basis,
20 continued investment by Algonquin in regulated utilities is, and will continue to be, a
21 major part of our future growth plans.

22

1 Summary of the Transaction, Required Approvals, and Financing

2 **Q. Please provide an overview of the Asset Purchase Agreement between Liberty**
3 **Energy Midstates and Atmos?**

4 A. As of May 12, 2011, Atmos and Liberty Energy Midstates entered into an Asset Purchase
5 Agreement, a copy of which is located in **Appendix C** to the Joint Application. The
6 Purchase Agreement provides for the transfer of Atmos' Illinois, Iowa and Missouri
7 natural gas distribution utility operations to Liberty Energy Midstates. The purchase price
8 of the assets is approximately \$124 million, subject to adjustment as set forth in the
9 Purchase Agreement. The purchase price is reasonable and is the result of arms' length
10 negotiations. Liberty Energy Midstates is not assuming any existing indebtedness under
11 the Purchase Agreement. The closing of the transactions is not subject to a condition that
12 Liberty Energy Midstates obtain adequate financing.

13 **Q. Is there a date by when the Asset Purchases must close?**

14 A. Yes. The Purchase Agreement may terminate if the closing has not occurred on or before
15 January 12, 2012. If the Purchase Agreement has not closed only because certain
16 specified regulatory approvals (including the approval of the Commission) have not yet
17 been obtained and have not become final and non-appealable, this termination date is to
18 be extended to July 12, 2012.

19 **Q. The aggregate purchase price for the acquisitions of Atmos' assets will be**
20 **approximately \$124 million. What is the source of the funds being expended by**
21 **Algonquin?**

1 A. We estimate based on the purchase price of approximately \$124 million that Liberty
2 Energy Midstates will issue a minimum of \$68 million of its common stock to its parent,
3 Liberty Energy in respect to its initial capitalization. Based on the purchase price, Liberty
4 Energy Midstates estimates that it would borrow a minimum of approximately \$56
5 million in long term debt that will likely be in the form of privately placed secured notes.
6 A more detailed description about the proposed financing and requested approvals may
7 be found in the direct testimony of Peter Eichler.

8 **Algonquin's Managerial and Financial Capability**

9 **Q. Please describe Algonquin's capability to manage the operation of Atmos' assets?**

10 A. Algonquin has had a history of stable management that has grown incrementally over the
11 years as our business has expanded. It is a clear sign of strength and stability of our
12 company that our current core management is essentially the same team that has been in
13 place since Algonquin's formation in 1988, and that other individuals who have joined us
14 over time have remained with us as our business has grown in size and scope. The low
15 turnover rate among Algonquin's management team has benefited us and our customers
16 in many ways, in particular by providing Algonquin with a committed, invested
17 management team that is thoroughly knowledgeable about all facets of Algonquin's
18 vision and its operations. As we have entered into and then expanded our presence in
19 utility operations over the last decade, Algonquin's management team has expanded in a
20 measured way so that we are fully able to provide effective oversight and support to our
21 utility operations. The stability of our management team not only benefits us in terms of
22 depth of knowledge and ability to work successfully as a well-coordinated team, but is

1 also a key indicator that we are a well-run company that treats its people well and has a
2 strong corporate vision that our team both believes in and feels they are able to contribute
3 to in significant ways. Without this type of shared vision, sense of contribution, and
4 successful execution, this type of stability of management would not be possible.

5 **Q. Please provide a summary of Algonquin's financial capacity?**

6 A. From a financial standpoint, Algonquin is financed in a conservative manner with
7 relatively low debt levels and has ready access to both the debt and equity capital markets
8 as may be needed to fund our business growth. From a debt perspective, Algonquin has a
9 strong, "investment grade" balance sheet (Standard and Poor's BBB- rating) with a
10 modest debt level (senior debt total capital ratio of approximately 32 percent). The
11 benefits of our conservative financing approach are well demonstrated by the fact that
12 Liberty Energy's utility debt offerings in 2010 were oversubscribed notwithstanding the
13 current tight credit markets.

14 **Q. Please describe Algonquin's access to capital markets?**

15 A. Algonquin's common stock and debentures are traded on the Toronto Stock exchange. In
16 addition to meeting all Canadian securities regulations, Algonquin is a 40-F registered
17 private issuer with the U.S. Securities and Exchange Commission ("SEC"), compliant
18 with all applicable SEC and Sarbanes-Oxley Act requirements. Algonquin's quarterly
19 and financial statements are routinely posted on the Edgar website (www.edgar.com).
20 More than ten percent of Algonquin's stock trades are in the United States, and therefore
21 Algonquin is required to maintain this level of compliance with U.S. reporting
22 requirements. All of the financial statements respecting Algonquin and its subsidiaries are

1 presented in accordance with U.S. GAAP and should be readily comprehensible by the
2 Commission. The transparency from compliance with these on-going public company
3 information disclosure obligations should allow the Commission to fully assess
4 Algonquin's financial capability.

5 Because it is publicly traded with shares and debentures being widely held throughout the
6 U.S. and Canada and by virtue of its strong balance sheet, Algonquin has ready access to
7 the capital markets. The liquidity of its shares and the strength of its debt issuances are
8 amply demonstrated by the large number of analysts that cover its stock, its proven
9 ability to issue debt at favorable rates, and the combined support shown in the capital
10 markets for its business strategy.

11 **Public Interest Basis for Asset Purchases and Key Commitments**

12 **Q. Please explain why you believe the Commission should find the Asset Purchase is**
13 **not detrimental to the public interest and, in fact, will be consistent with and will**
14 **promote the public interest?**

15 A. The following considerations are offered with respect of our assertion that approving the
16 Asset Purchases will benefit customers and is not detrimental to the public interest and, in
17 fact, will be consistent with and will promote the public interest:

18 **Experienced utility owner:** Algonquin and its operating subsidiaries have been in the
19 regulated utility business for a decade and we are safely and reliably serving more than
20 75,000 regulated water and wastewater customers, and more recently, nearly 50,000
21 additional electric distribution customers in California. The health and safety, customer

1 service and regulatory affairs oversight of Algonquin in the successful operation of these
2 businesses is directly applicable to operating in Missouri and will enable us to meet the
3 expectations of both the Commission and our customers. Algonquin believes that the
4 experience, expertise and strategy evident in our successful history of acquisitions and
5 subsequent reliable, cost effective and safe operation of a large number of utility
6 businesses should be considered and given substantial weight in review of the proposed
7 transaction by the Commission.

8 **Algonquin's Model Emphasizes Local Presence:** Algonquin believes that the most
9 effective structure for the provision of safe and reliable utility service to customers,
10 regulators, and the community is through locally employed personnel. Central to our
11 strategy is that functions related to customer service, or that are regulator facing should
12 be performed in the service territory, as opposed to central operations. A regional
13 president will have responsibility for day to day operations in Missouri. An important
14 side benefit our strategy is the additional employment opportunities created in the State of
15 Missouri. We have identified the need to hire approximately 25 additional full time
16 employees throughout the Midstates Utilities service area, some of which will be based in
17 Missouri. At a minimum, customer service representatives will be hired to work in the
18 existing service centers in Missouri, reflecting our emphasis on local service. Liberty
19 Energy Midstates will also add autonomous local jobs performing function such as
20 engineering, human resources and other administrative functions. It has not determined
21 the distribution of these jobs among its different service areas in Illinois, Iowa, and
22 Missouri but some portion of that will be in Missouri. Under Algonquin's local
23 approach, Liberty Energy Midstates will emphasize support for Missouri-based service

1 suppliers, including vendors in respect of energy efficiency and low income customer
2 support programs.

3 **Improved Regulatory Transparency:** The proposed Algonquin operating model
4 provides operational and cost transparency for regulatory purposes. Under the Algonquin
5 model, a significant proportion of the services necessary to operate the business will be
6 provided by employees who are directly employed in Missouri. This will provide the
7 Commission and its Staff with a transparent structure for assessing the appropriateness
8 and prudence of particular costs during the rate making process.

9 **No Impact on Rates from Asset Purchases:** Liberty Energy Midstates is not seeking
10 any determination to include an acquisition premium as part of the rate base, and will not
11 charge the transaction costs incurred in the acquisition to its customers.

12 **Financially Capable Owner:** With respect to Algonquin's financial capability to own
13 and operate utility service in Missouri, the financial community has expressed its support
14 and confidence in Algonquin's utility acquisition strategy. This is evidenced by positive
15 analyst reports following the announcement of the proposed transaction. Copies of three
16 such reports are included as **Schedule 1.2**. We believe the investment community remains
17 committed to and supportive of the addition of Midstates Utilities assets to Algonquin's
18 portfolio.

19 **Focus on Reinvestment in Missouri:** The Algonquin business model is committed to
20 providing superior service to its customers and delivering sustainable returns to its
21 investors over an effectively perpetual investment horizon. Under our model, one of the
22 key strategies is the re-investment of capital to preserve Missouri regulatory assets and to

1 extend the availability of natural gas in Missouri. Adding local personnel will create
2 quality jobs in Missouri and enhance customer experiences, including by staffing
3 customer walk-in centers. Our local emphasis will also increase the extent to which rates
4 are based on costs incurred primarily at the local level and therefore are more readily
5 identifiable with the services provided. Moreover, Liberty Energy Midstates anticipates
6 the potential for a close working relationship with the Commission following the closing
7 of the proposed transaction.

8 **Q. Does this conclude your testimony?**

9 **A. Yes.**

10